

Information & Telecommunication Systems Business Strategy

Hitachi IR Day 2013

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President & CEO**

**Information & Telecommunication Systems Company
Information & Telecommunication Systems Group
Hitachi, Ltd.**

Information & Telecommunication Systems Business Strategy

Contents

- 1. Performance Review of 2012 Mid-term Management Plan**
2. 2015 Mid-term Management Plan
3. Hitachi's Comprehensive Capabilities in the Social Innovation Business
4. Transforming a Business Portfolio with Growth Potential
5. Developing the Global Business Structure
6. Business Targets
7. Conclusion

- **Revenues:** Slightly higher revenues from steady sales in services in Japan and storage solutions and ATMs overseas.
- **Operating income:** Earnings increased despite lower profitability due to some unprofitable projects. This mainly reflected solid earnings from storage solutions and ATMs overseas.

	FY2012	Year over year change
Revenues	1,786.5 billion yen	101%
Operating income (Operating income ratio)	104.6 billion yen (5.9%)	+2.9 billion yen

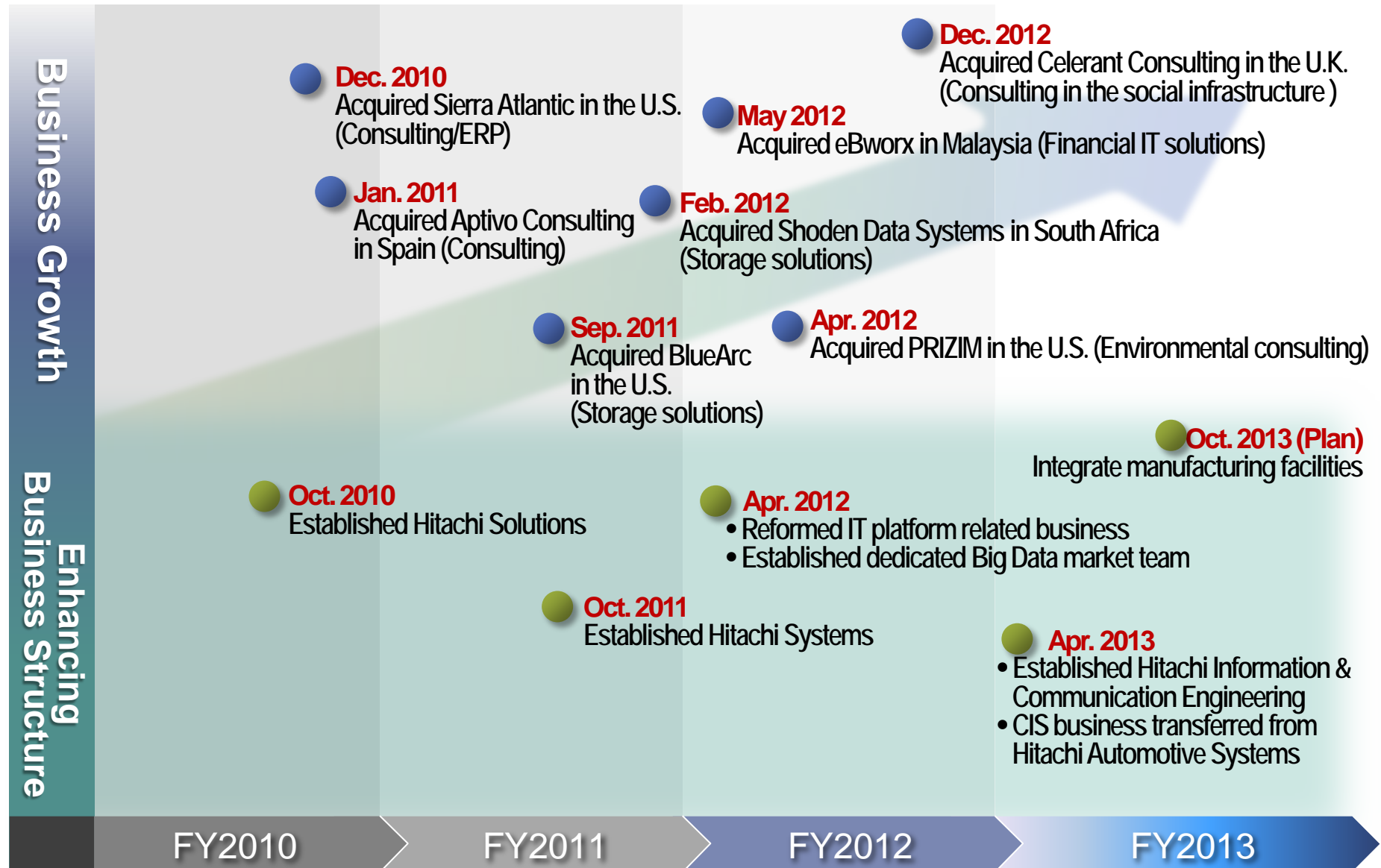
1-2. Performance Overview of 2012 Mid-term Management Plan (1)

- Revenues: Continuing to grow since FY2010, CAGR 4.0% (Japan: 2.8%, overseas: 7.9%)
- Operating income: impacted by changes in the external environment, including the Great East Japan Earthquake, and unprofitable projects

	FY2010	FY2011	FY2012	FY2012 Targets*
Revenues	1,652.0 billion yen	1,764.2 billion yen	1,786.5 billion yen	1,750.0 billion yen
Operating income (EBIT) ratio	6.0% (5.8%)	5.8% (5.5%)	5.9% (5.8%)	7.0% (-)
Overseas revenue ratio	24%	25%	26%	25%
Services revenue ratio	58%	60%	60%	60%
Exchange rate	86 yen/U.S. dollar 113 yen/euro	79 yen/U.S. dollar 109 yen/euro	83 yen/U.S. dollar 107 yen/euro	80 yen/U.S.dollar 110 yen/euro

* As of June 16, 2011, assumed exchange rate.
EBIT: Earnings Before Interest and Tax

1-2. Performance Overview of 2012 Mid-term Management Plan (2)



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Changes in society around 2020

- Shifting from a society centered on “concentration, ownership and consumption” to “distribution, sharing and recycling”
- Expansion of free trade zones
- Global market growth led by emerging countries
- Energy shift drive to reorganize industry and market change
(Growing presence of the U.S., Sub-Saharan Africa, South America, etc.)

Growing social issues

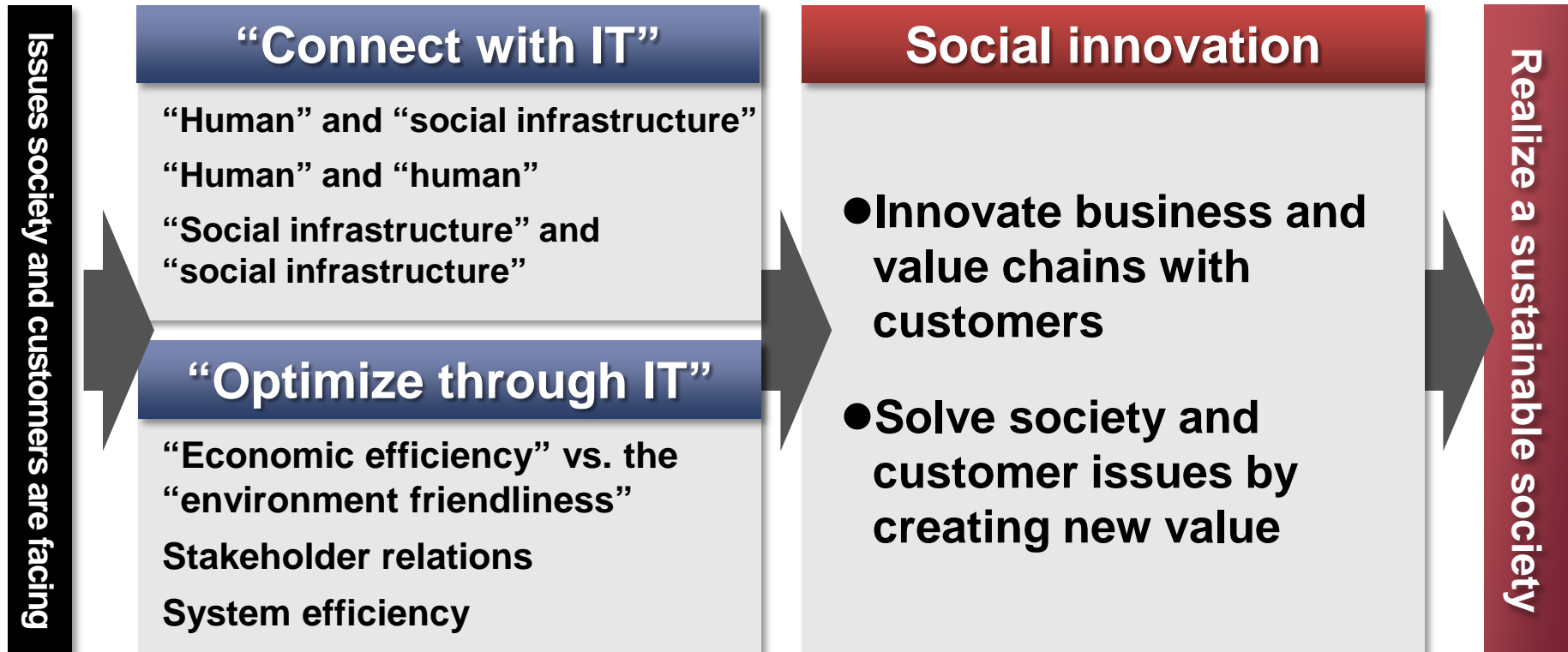
- Resource and food shortages
- Aging populations and shrinking worker pools
- Urbanization and environmental destruction
- Lack of social infrastructure (emerging countries), aging social infrastructure (developed countries)

Build social infrastructure globally, achieve a sustainable society

- Innovate businesses and value chains with “human,” “IT” and “social infrastructure”
- Realize a sustainable society by solving social issues globally

“Human,” “IT” and
“social infrastructure”

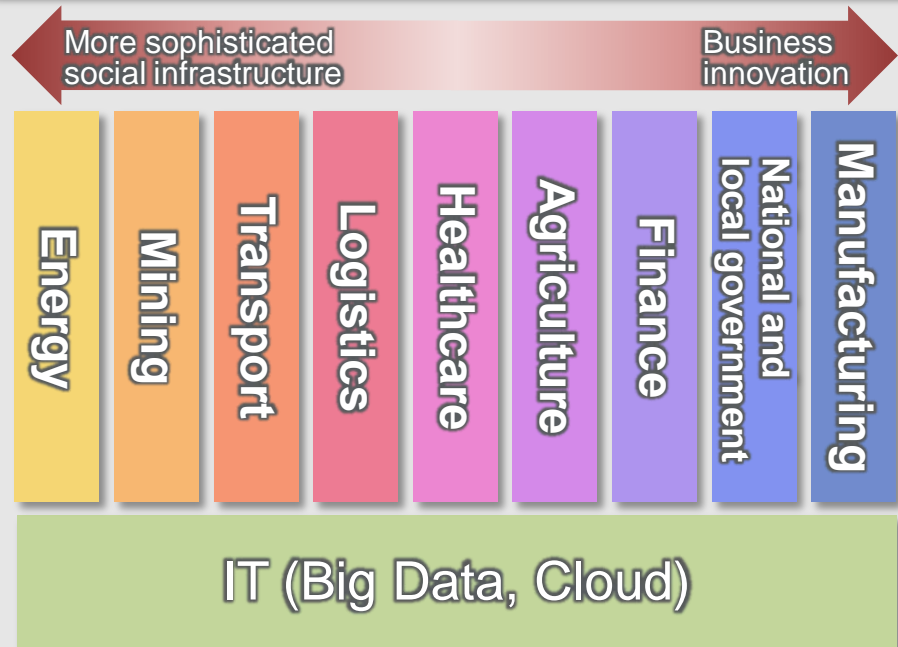
As can only be done by Hitachi with
its knowledge of both “IT” and
“social infrastructure”



Drive social innovation with “IT”

Further enhance abilities to “understand social issues,”
“propose solutions” and “deliver solutions”

Main solutions for solving social issues



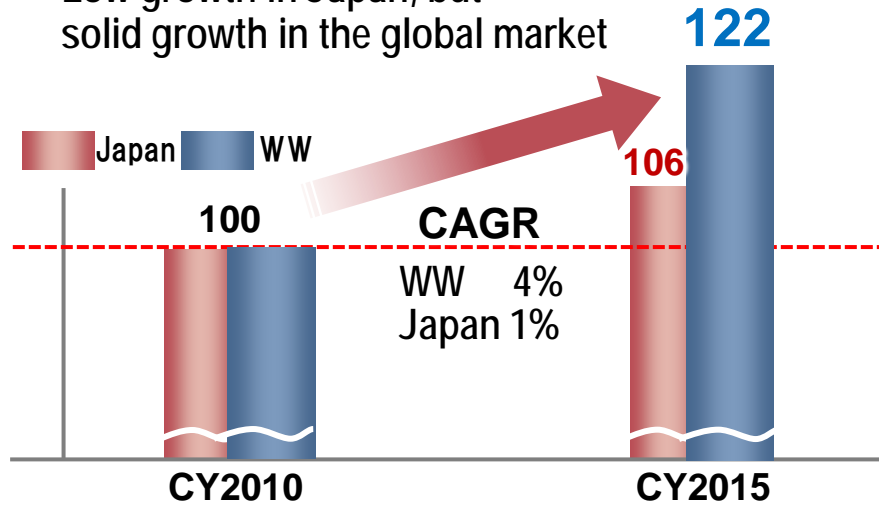
Major countries and regions for global development



2-3. Growing Markets to Target

IT Market Trends

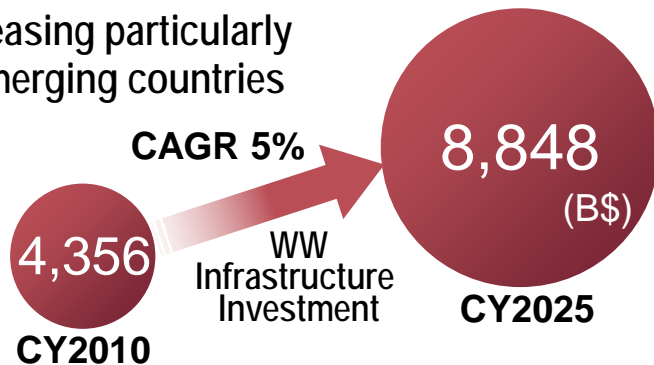
Low growth in Japan, but solid growth in the global market



Source: IDC, "Worldwide Black Book Query Tool, Version1, 2013", May 2013
(Based on data excluding Client Systems, Feature Phones, Smartphones)

Social infrastructure investment

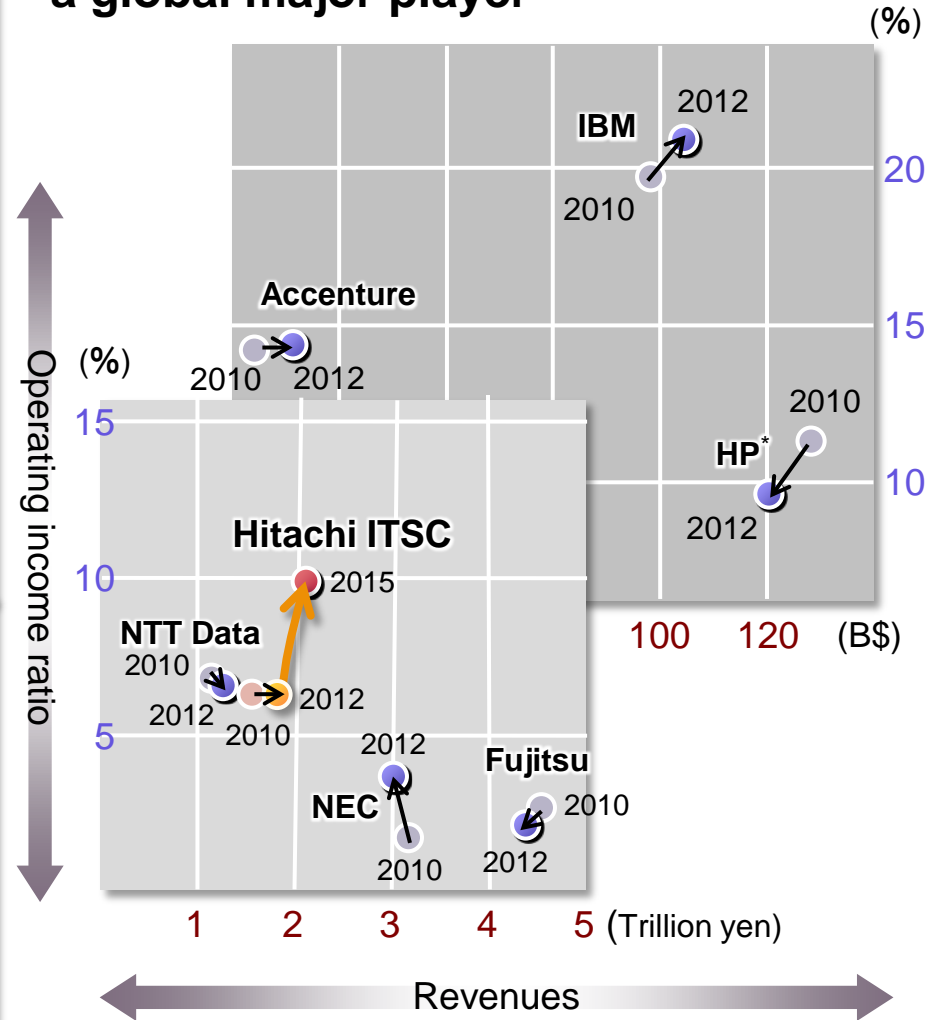
Increasing particularly in emerging countries



Source: Calculated by the Hitachi Research Institute using data from the Global Insight

CAGR: Compound Annual Growth Rate
ITSC: Information and Telecommunications Systems Company

Enhancing profitability to become a global major player



Source: Each company's announcements

* Results of HP was calculated eliminating the booking of impairment loss

Become a global major player by 3Gs (Growth, Global and Group)

1. Hitachi's Comprehensive Capabilities in the Social Innovation Business

- Enhance Group collaboration for displaying “One Hitachi” strengths
- Strengthen upstream approaches using frontline expertise
- Utilize IT for supporting global business operations

2. Transforming a business portfolio with growth potential

- Strengthen priority fields
- Expand global businesses
- Strengthen services businesses

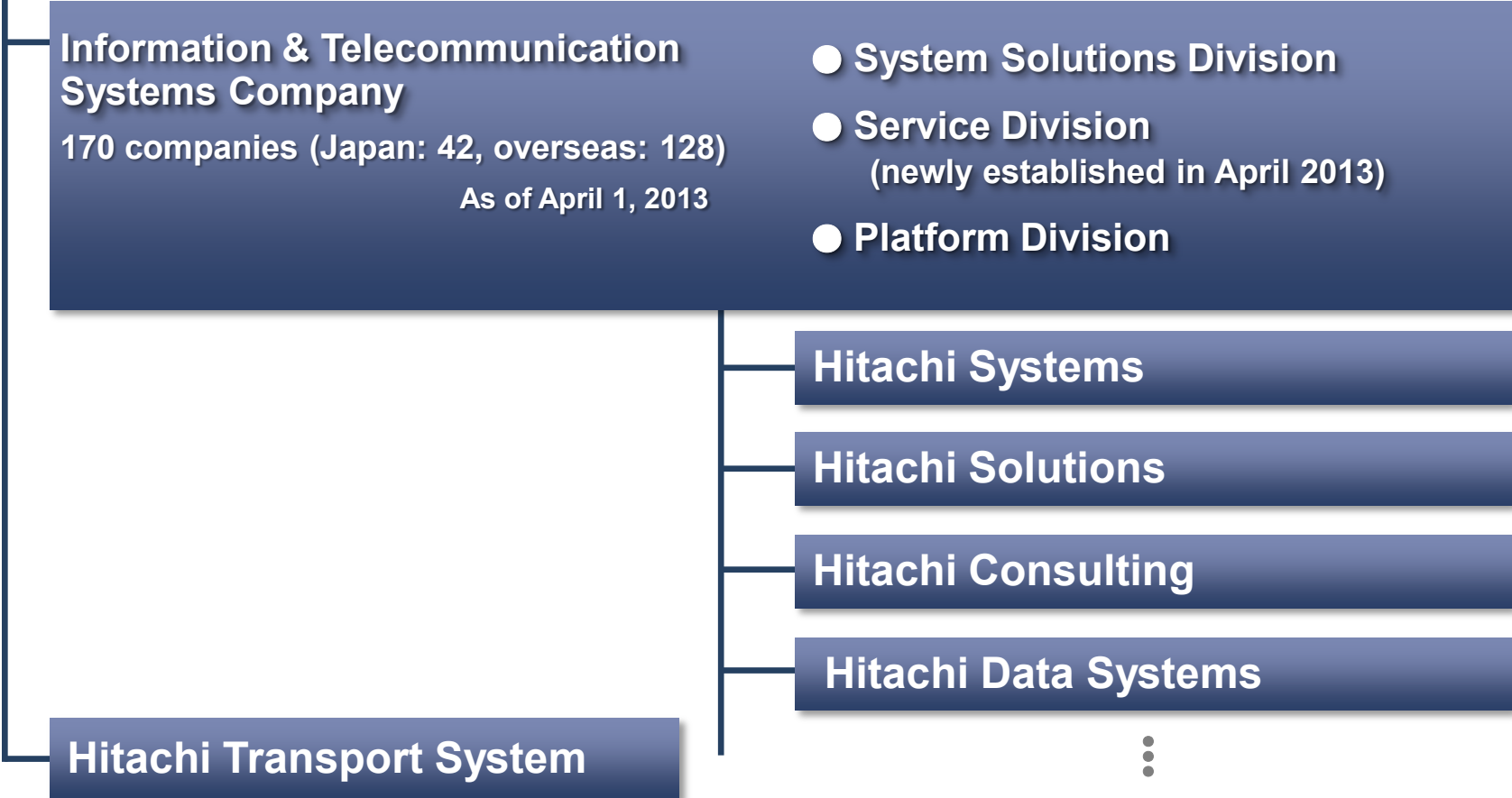
3. Developing the global business structure

- Strengthen global operations and human resources
- Promote the Hitachi Smart Transformation Project
- Strengthen cash flow management

2-5. Performance Targets (Summary)

	FY2012	FY2015 (Targets)
Revenues	1,786.5 billion yen	2,100.0 billion yen
EBIT (Operating income) ratio	5.8% (5.9%)	9.8% (10.0%)
Overseas revenue ratio	26%	35%
Service revenue ratio	60%	over 65%

Information & Telecommunication Systems Group



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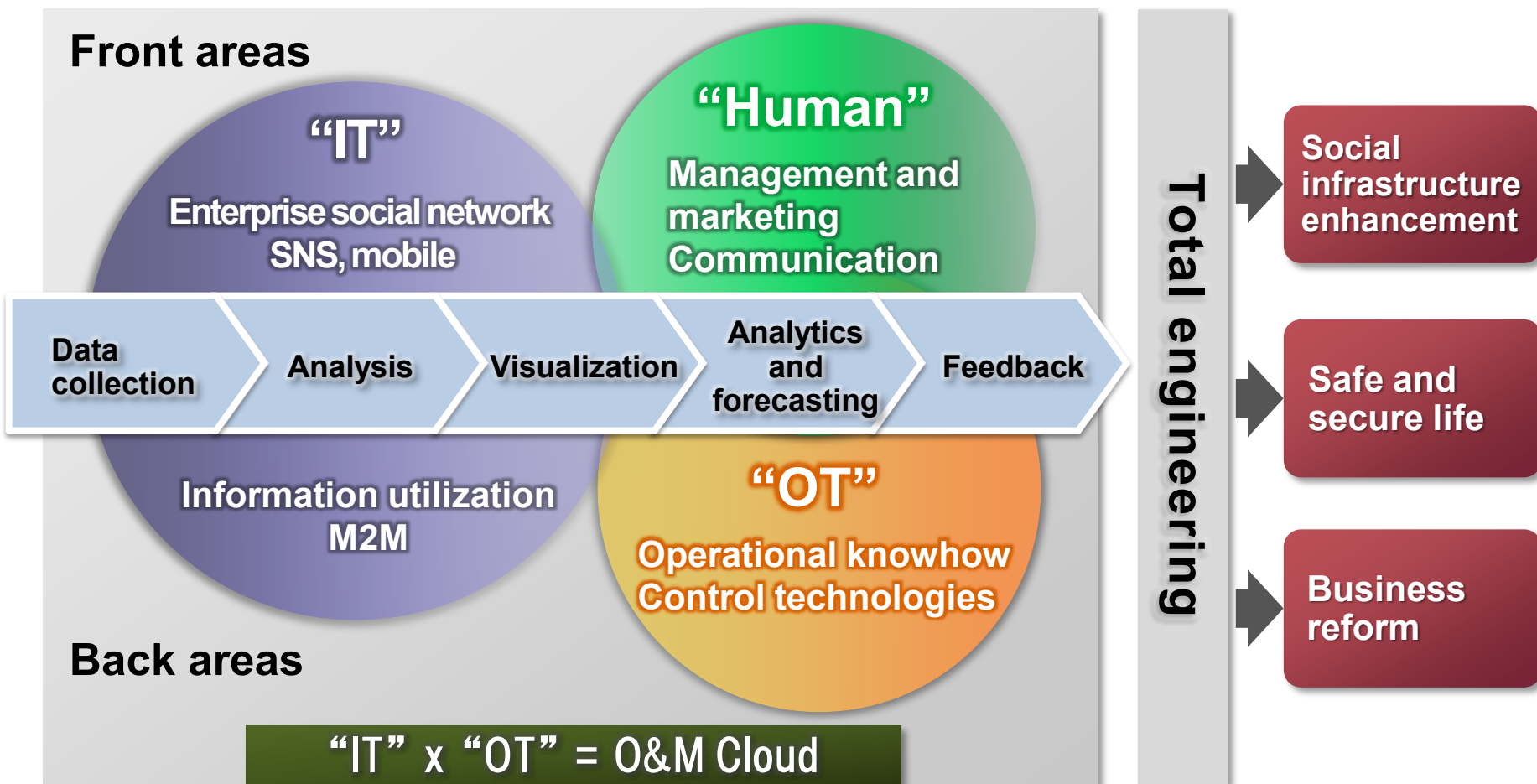
Innovate businesses and value chains utilizing IT



**Information & Telecommunication Systems Company leads
One Hitachi to cover the entire customer value chain**

- **Change to a solutions-based approach to solve social issues, eyeing entire customer value chains from the upstream level**
- **Develop the Social Innovation Business from the frontline where to identify the elements of issues to be solved**

- Create new business models centered on “human”
- Optimize business processes based on actual business knowhow



Consulting

Approach from the upstream level to survey the entire value chain and identify real issues existing in frontlines

- Consulting capabilities in the social infrastructure field: Acquired Celerant Consulting (December 2012)
- Upstream design based on “frontline” and “human”: Strengthen Experience Oriented Approach (Ex Approach)
- Partner collaboration: Established Market Intelligence Lab. with Hakuodo (April 2013)

Solutions

Data analytics for creating value that helps solve problems

- Centralization of knowledge and expertise across regions and fields: Establishment (June 2013) and enhancement of Hitachi Global Center for Innovative Analytics

Services

Utilize IT for supporting global business operations

- Cutting-edge IT utilization: Big Data, Cloud computing services, Security

3-4. Main Domains in Social Infrastructure

Energy

Mining

Transport

Logistics

Healthcare

Agriculture



Active collaborative creation with customers

Approaches utilizing the Hitachi Group's business and knowhow

**Provide enhanced social infrastructure systems:
smart information**

Related revenues FY2012: approx. 10.0 billion yen → FY2015: 100.0 billion yen

Realize a healthy, safe and secure society

Customer trends/needs

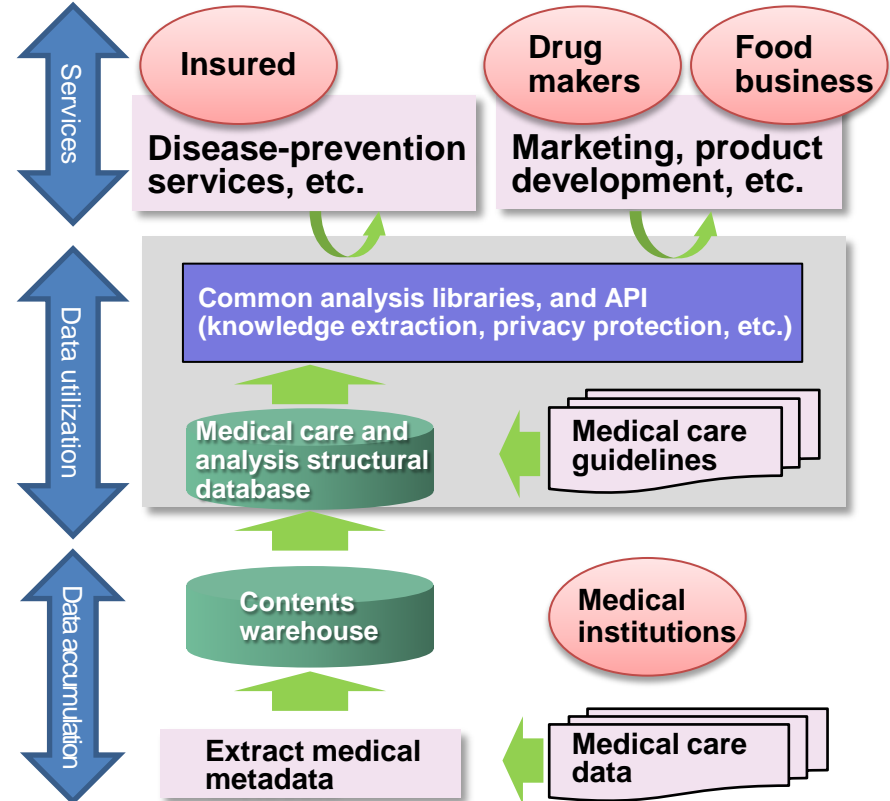
- Reductions in social security expenses at the national level
- Increasing pre- (preventive and early discover) and post-medical (home medical treatment and care) needs

Hitachi's initiatives

- Enhance pre- and post-medical care utilizing IT:
 - Utilization of health and medical care data
- Services of health management and disease prevention
- Support to development of new medicine and health food

Example of solution

- Launched demonstration of disease prevention jointly with the U.K. NHS



Create optimized logistics services utilizing IT

Customer trends/needs

- Rapid growth of emerging market mainly in Asia (CAGR: 18%)
- Establish global network, respond to increasing logistics volume, comply with SLA, reduce transportation cost and environmental burden
- Enhance and globalize 3PL

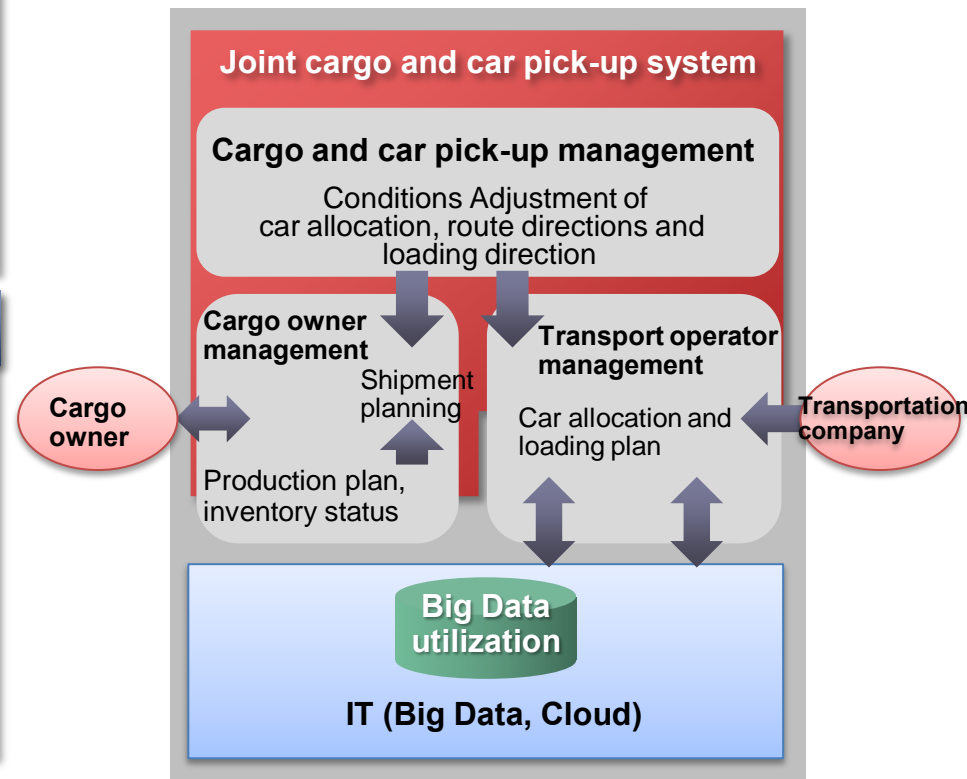
Hitachi's initiatives

- **Enhancement of logistics with IT in emerging countries:**
 - Smart logistics balancing economic efficiency and environment friendliness
- **Optimization of logistics services utilizing production plan and car allocation data**

SLA: Service Level Agreement
3PL: 3rd-Party Logistics

Example of solution

- **Demonstration of new logistics services (joint cargo and car pick-up system) in emerging countries**



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Key fields to lead growth

1. Strengthen priority fields

- Smart information (introduced in Chapter 3)
- Big Data ● Highly reliable cloud computing ● Security

2. Expand global businesses

- Overseas revenue ratio: 26% (FY2012) → 35% (FY2015)

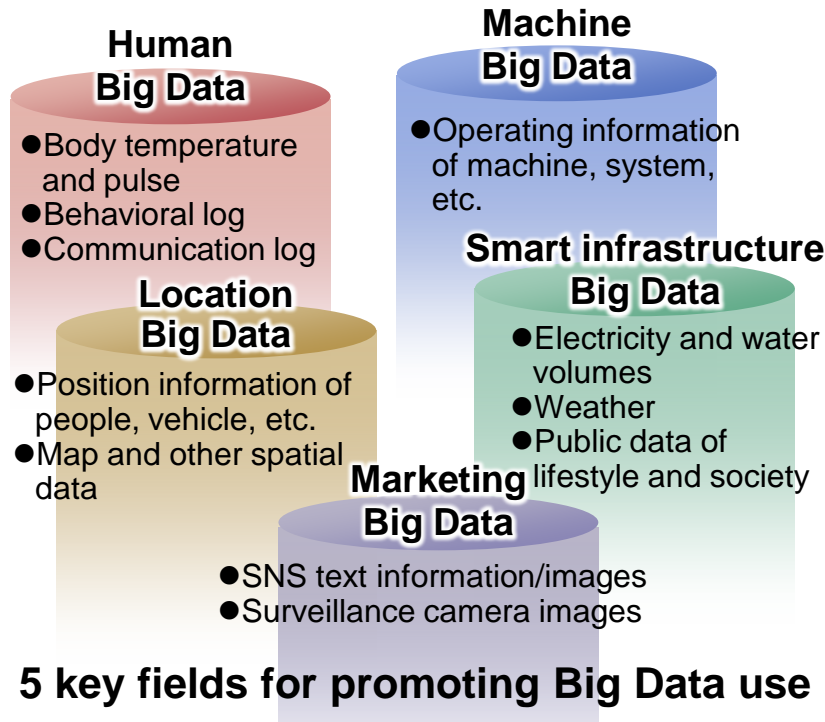
3. Strengthen services businesses

- Service revenue ratio: 60% (FY2012) → over 65% (FY2015)

4-2. Strengthen Priority Fields (1) Big Data

Create new customer value and business opportunities using Big Data

- Promote business utilizing end users' Big Data:
e.g. Telematics field: "Nissan Motor" x "Sompo Japan Insurance"
- Strengthen global business with
"Hitachi Global Center for Innovative Analytics"



5 key fields for promoting Big Data use



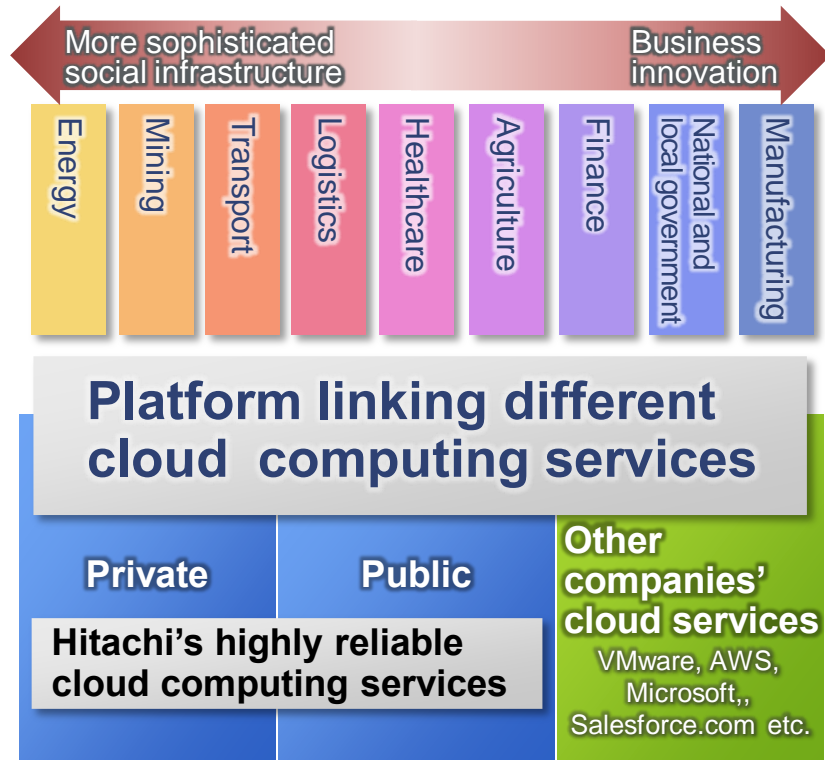
Related revenues

FY2012: approx. 10.0 billion yen → FY2015: 150.0 billion yen

4-2. Strengthen Priority Fields

(2) Highly reliable cloud computing

- Provide second-generation cloud computing services to address more diverse and sophisticated customer needs in response to expanding use of cloud computing services (linking different cloud computing services)
- Provide cloud computing services globally



Platform linking different cloud computing services

Private

Hitachi's highly reliable cloud computing services

Public

Other companies' cloud services

VMware, AWS, Microsoft, Salesforce.com etc.

Harmonious Cloud

FY2012

- Created highly reliable, flexible, scalable cloud computing services with a hybrid response

FY2013-2015

- Started providing global cloud computing services
Hitachi Cloud Services (May 2013)
- Global expansion of cloud computing services by extending the support coverage of different clouds
- Provide O&M cloud computing services for the Social Innovation Business

Related revenues FY2012: approx. 200.0 billion yen → FY2015: 500.0 billion yen

4-2. Strengthen Priority Fields (3) Security

Provide security services covering entire social infrastructure and corporate activities

Changing customer needs

- Ensuring safety and availability of social infrastructure
- Comprehensive measures (human, goods, information)
- Response to emerging threats

Strengthen social infrastructure security

- Fuse IT and social infrastructure security based on actual business know-how (Launched Social Infrastructure Security Promotion Project)
- Support continuous security operations

Overall plan formulation

- Professional services
 - Security evaluation, consulting, education

Operation

- Security monitoring services
 - Managed security
- Support for establishing IRT organizations

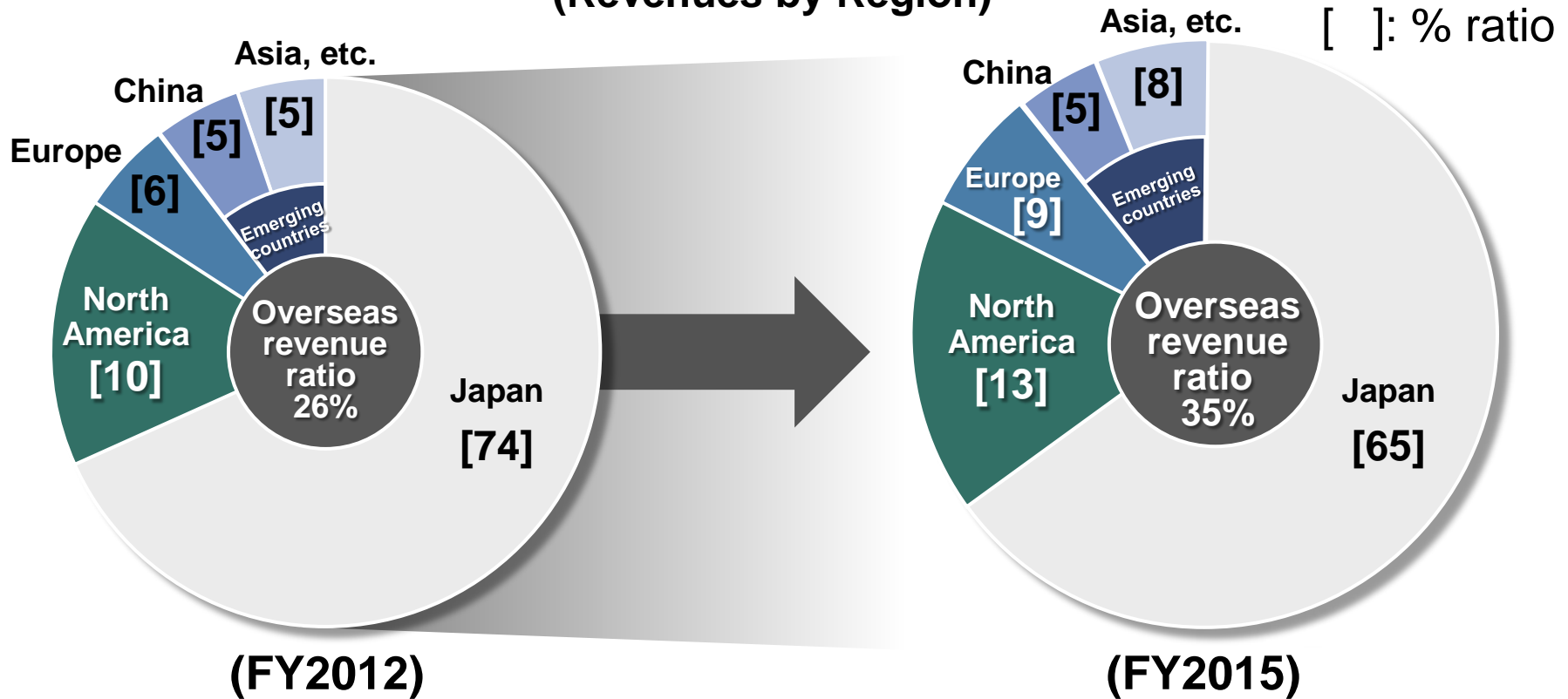
System integration

- Secureplaza solution and services

Related revenues FY2012: approx. 30.0 billion yen → FY2015: 50.0 billion yen

4-3. Expand Global Businesses (1) Revenues, Personnel

Overseas Revenue Ratio (Revenues by Region)



56,100

Japan
headcount

55,000

15,400 [22%]

Overseas
headcount

20,000 [27%]

71,500

Total headcount

75,000

Accelerate growth in global markets centered on Hitachi Data Systems

Results Through FY2012

Initiatives Towards FY2015

Business portfolio expansion

- **Strengthened sales system to expand revenues**
 - Revenues: CAGR 10% (FY2006 → FY2012)
 - Acquired Shoden Data Systems (Feb. 2012)
- **Added greater value by expanding software and services**
 - FY2006: 40% → FY2012: 50%
- **Strengthened high-growth file and contents management business**
 - Acquired Archivas (Feb. 2007)
 - Acquired BlueArc (Sept. 2011)

- **Expand business domains to integrated platforms**
 - Contents cloud
 - Information cloud
- **Provide cutting-edge solutions**
 - Healthcare, video surveillance, finance, etc.
- **Expand managed service* solutions business**

* O/S services of operation management

Hitachi Consulting drives global business by the approach from upstream level

Results Through FY2012

Initiatives Towards FY2015

Business portfolio expansion

- **Built a highly profitable service portfolio**
 - Upstream consulting
 - Technology solutions
 - Managed services
- **Expanded business scale using M&As**
 - Acquired PRIZIM (Apr. 2012)
 - Acquired Celerant Consulting (Dec. 2012)
- **Strengthened global business structure**
 - Acquired Sierra Atlantic (Dec. 2010)

- **Establish Tier 1 position early**
 - Expand regional coverage on Europe and Asia-Pacific
- **Reinforce the consulting business for driving the Social Innovation Business**
 - Strengthen collaboration with Infrastructure Systems Company and Power Systems Company, etc.
- **Focus on the field customers need most**
 - Big Data
 - ERP
 - ITO, BPO

4-3. Expand Global Businesses

(4) Solutions Delivery System

- Strengthen global solutions delivery as One Hitachi
- Establish a support system in close contact with customers

More sophisticated
social infrastructure
Electricity, railways, water, etc.

Corporate globalization
Manufacturing, distribution,
finance, etc.

**Provide total solutions extending from consulting to
system development and operation**

**Expand regional coverage and
strengthen growth markets**
(developing businesses in approx. 100 countries
and regions at present)

Information & Telecommunication Systems Company

Hitachi Data Systems

Hitachi Consulting

Hitachi-Omron Terminal Solutions

Hitachi eBworx

Hitachi Sunway Information Systems

...

4-4. Strengthen Services Businesses

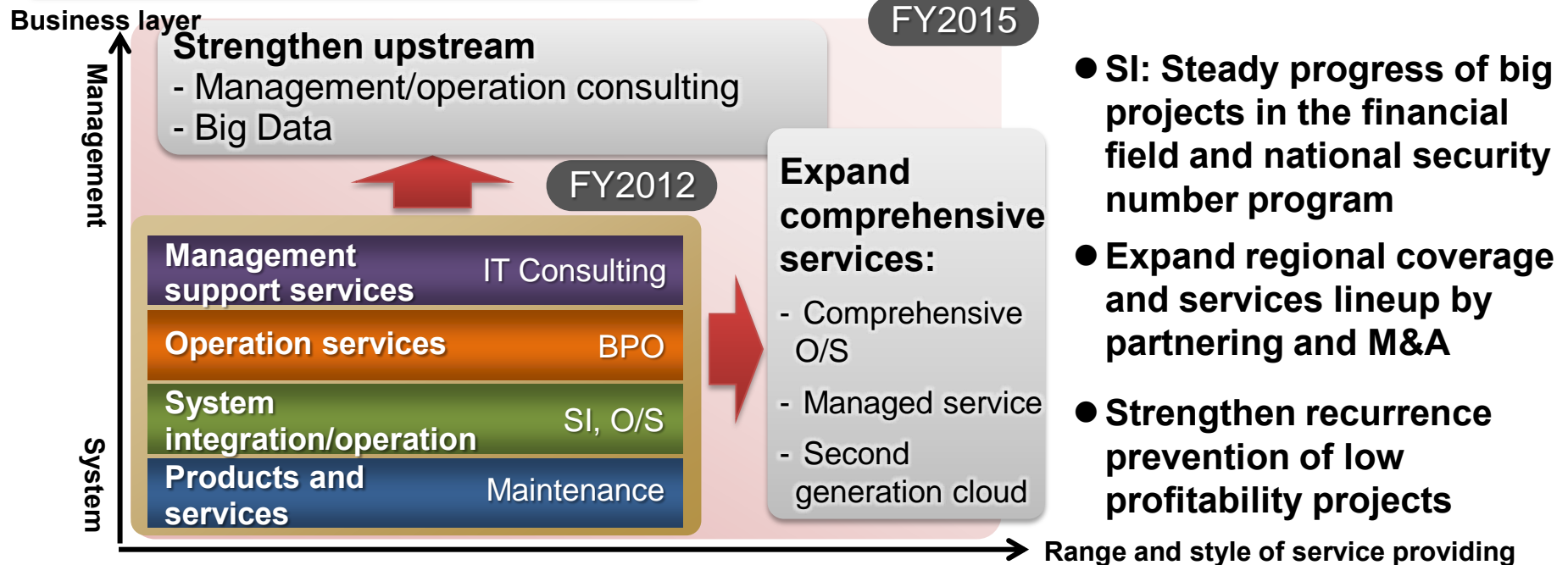
Service revenue ratio: 60%(FY2012) → over 65%(FY2015)

Market trends/needs

- Accelerated shift “from ownership to access”
- Expansion of outsourcing over customers’ core businesses
- Utilization of services to expand business

Strong services businesses

Provide high-value added services with the strength of track records and know-how in the fields of finance, government & public and manufacturing fields



- SI: Steady progress of big projects in the financial field and national security number program
- Expand regional coverage and services lineup by partnering and M&A
- Strengthen recurrence prevention of low profitability projects

O/S: Outsourcing

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Shift focus from consolidated management and business structure reforms to development of a global business structure

2012 Mid-term Management Plan

Consolidated management and business structure reforms

- Group company integration, conversion of subsidiaries into wholly owned subsidiaries (Hitachi Systems , Hitachi Solutions)
- Discontinued the manufacture of semiconductors for IT hardware products
- Hitachi Smart Transformation Project (started in FY2011)
 - Consolidate the manufacture facilities of IT platform products
 - Consolidate the indirect operations (Education unit, etc.)
- Cost reduction effect: FY2012: 12.0 billion yen (from FY 2010)

2015 Mid-term Management Plan

Develop the Global Business Structure

- Strengthen global operations
- Strengthen global human resources
- Hitachi Smart Transformation Project
- Strengthen cash flow management

Strengthen global operations

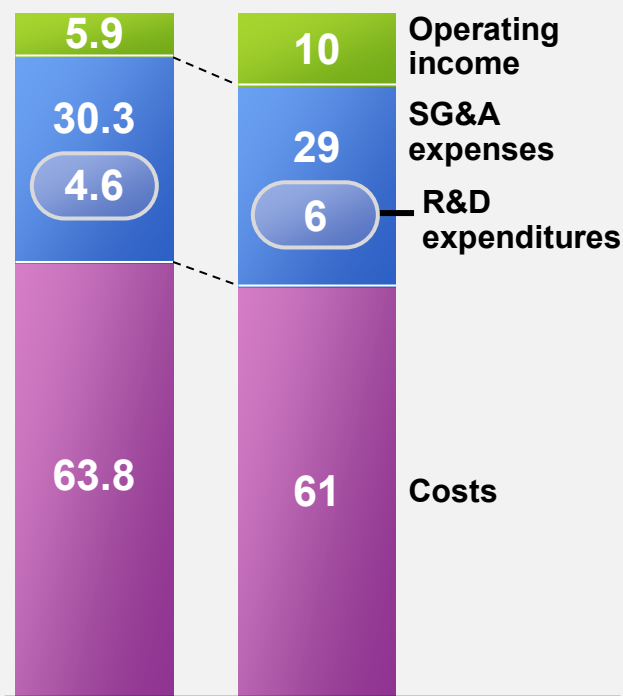
- **Enhance global and group consolidated management system:**
 - Strengthen integration of business value chain
 - Hold top management conference globally
- **Strategic increase in R&D investment**
(Ratio to revenue: 4.6%(FY2012) → 6%(FY2015))
 - Utilize global R&D resources by collaborating with the Research and Development Group
 - Create innovation by market-in style R&D
- **Strategic utilization of IT:**
 - Real-time visualization of management and global integration of systems
- **Strengthen sales capabilities**
 - Optimize sales under group consolidation

Strengthen global human resources

- **Global leader appointments: participation in management**
- **Reinforce development of global and services human resources**

5-3. Hitachi Smart Transformation Project

Earnings Structure (%)



FY2012 FY2015 Target

Cost reduction through Hitachi Smart Transformation Project

SG&A expenses	<ul style="list-style-type: none"> ● Optimize split of work/process within Hitachi Group ● Consolidate and restructure group companies ● Integrate IT within Hitachi Group ● Expand global shared services of indirect operations (accounting, general affairs, procurement, etc.)
Costs	<ul style="list-style-type: none"> ● Reduce software development cost by expanding use of offshore ● Reduce manufacturing cost by consolidating manufacture facilities ● Reduce direct material cost by expanding global sourcing and standardizing materials

Cost reduction effect

FY2013: 16.0 billion yen (from FY2012)
 FY2015: 53.0 billion yen (from FY2012)
 ➔ FY2011~2015 total: 65.0 billion yen

+

Establish highly-profitable business portfolio
 Strategic increase in R&D investment

5-4. Strengthen Cash Flow Management

Challenges

- Increase business profitability
- Improve turnover period of working capital
- Reduce assets

Increase cash flows from operating activities

Measures

- Increase profitability by shifting to services businesses and expanding global businesses
- Reduce inventories by consolidating manufacturing facilities and establishing global supply chain management
- Continue to examine investments to generate synergies among other business units

- Optimize return on investments /
Recoup investments early

Optimize cash flows from investing activities

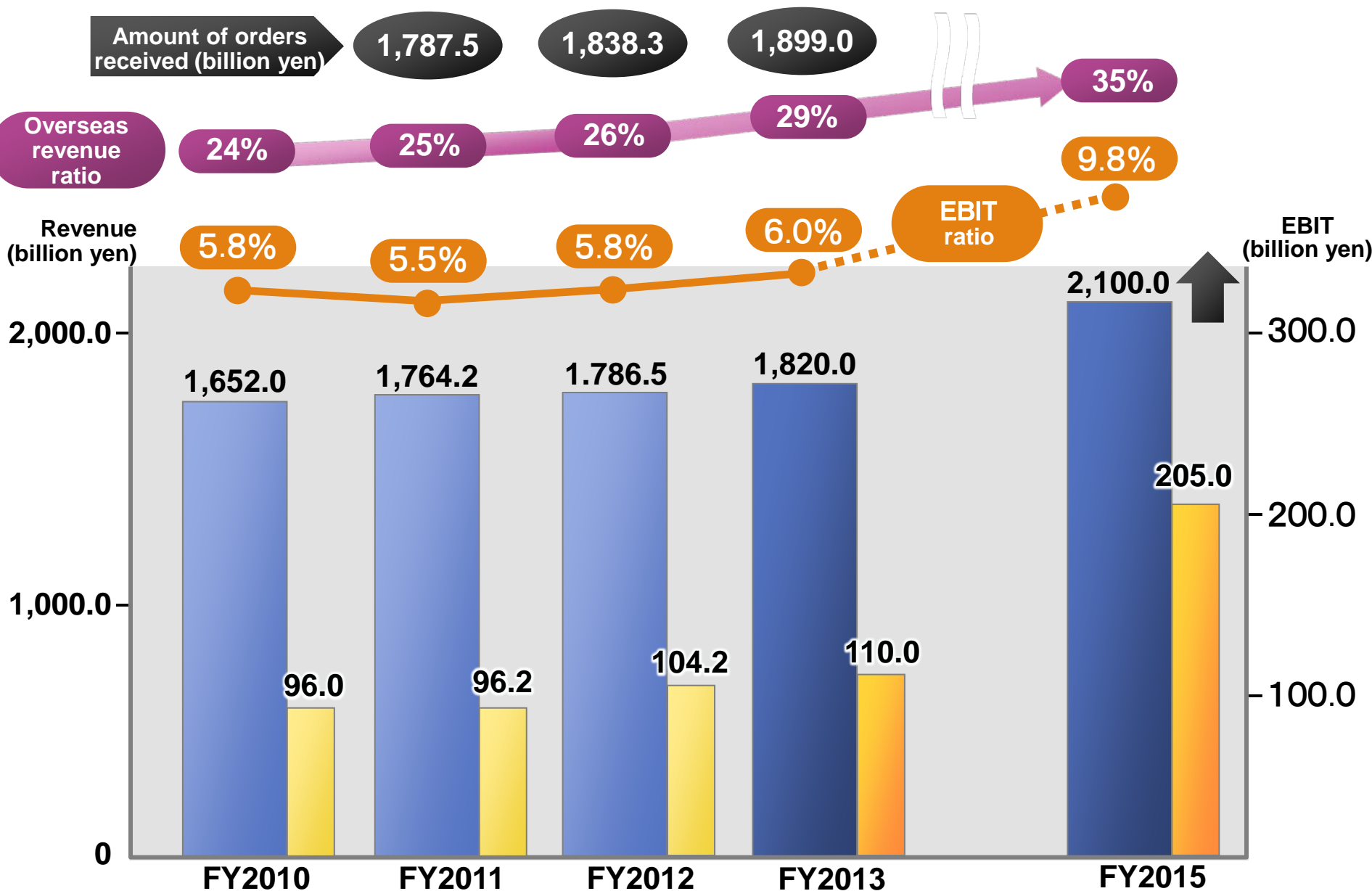
- Execute strategic investments and M&A to maximize synergies

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6-1. FY2013 Forecasts



FY2015 Targets

- **Revenues: 2,100.0 billion yen
(overseas revenue ratio: 35%)**
- **EBIT (Operating income) ratio: 9.8% (10%)**
- **Gross margin:
2.8 point improvement (from FY2012)**
- **SG&A expense ratio:
1.3 point improvement (from FY2012)**

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**Become a global major player by 3Gs
(Growth, Global and Group)**

Cautionary Statement

Certain statements found in this document may constitute “forward-looking statements” as defined in the U.S. Private Securities Litigation Reform Act of 1995. Such “forward-looking statements” reflect management’s current views with respect to certain future events and financial performance and include any statement that does not directly relate to any historical or current fact. Words such as “anticipate,” “believe,” “expect,” “estimate,” “forecast,” “intend,” “plan,” “project” and similar expressions which indicate future events and trends may identify “forward-looking statements.” Such statements are based on currently available information and are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the “forward-looking statements” and from historical trends. Certain “forward-looking statements” are based upon current assumptions of future events which may not prove to be accurate. Undue reliance should not be placed on “forward-looking statements,” as such statements speak only as of the date of this document.

Factors that could cause actual results to differ materially from those projected or implied in any “forward-looking statement” and from historical trends include, but are not limited to:

- economic conditions, including consumer spending and plant and equipment investment in Hitachi’s major markets, particularly Japan, Asia, the United States and Europe, as well as levels of demand in the major industrial sectors Hitachi serves, including, without limitation, the information, electronics, automotive, construction and financial sectors;
- exchange rate fluctuations of the yen against other currencies in which Hitachi makes significant sales or in which Hitachi’s assets and liabilities are denominated, particularly against the U.S. dollar and the euro;
- uncertainty as to Hitachi’s ability to access, or access on favorable terms, liquidity or long-term financing;
- uncertainty as to general market price levels for equity securities, declines in which may require Hitachi to write down equity securities that it holds;
- the potential for significant losses on Hitachi’s investments in equity method affiliates;
- increased commoditization of information technology products and digital media-related products and intensifying price competition for such products, particularly in the Digital Media & Consumer Products segments;
- uncertainty as to Hitachi’s ability to continue to develop and market products that incorporate new technologies on a timely and cost-effective basis and to achieve market acceptance for such products;
- rapid technological innovation;
- the possibility of cost fluctuations during the lifetime of, or cancellation of, long-term contracts for which Hitachi uses the percentage-of-completion method to recognize revenue from sales;
- fluctuations in the price of raw materials including, without limitation, petroleum and other materials, such as copper, steel, aluminum, synthetic resins, rare metals and rare-earth minerals, or shortages of materials, parts and components;
- fluctuations in product demand and industry capacity;
- uncertainty as to Hitachi’s ability to implement measures to reduce the potential negative impact of fluctuations in product demand, exchange rates and/or price of raw materials or shortages of materials, parts and components;
- uncertainty as to Hitachi’s ability to achieve the anticipated benefits of its strategy to strengthen its Social Innovation Business;
- uncertainty as to the success of restructuring efforts to improve management efficiency by divesting or otherwise exiting underperforming businesses and to strengthen competitiveness;
- uncertainty as to the success of cost reduction measures;
- general socioeconomic and political conditions and the regulatory and trade environment of countries where Hitachi conducts business, particularly Japan, Asia, the United States and Europe, including, without limitation, direct or indirect restrictions by other nations on imports and differences in commercial and business customs including, without limitation, contract terms and conditions and labor relations;
- uncertainty as to the success of alliances upon which Hitachi depends, some of which Hitachi may not control, with other corporations in the design and development of certain key products;
- uncertainty as to Hitachi’s access to, or ability to protect, certain intellectual property rights, particularly those related to electronics and data processing technologies;
- uncertainty as to the outcome of litigation, regulatory investigations and other legal proceedings of which the Company, its subsidiaries or its equity method affiliates have become or may become parties;
- the possibility of incurring expenses resulting from any defects in products or services of Hitachi;
- the possibility of disruption of Hitachi’s operations by earthquakes, tsunamis or other natural disasters;
- uncertainty as to Hitachi’s ability to maintain the integrity of its information systems, as well as Hitachi’s ability to protect its confidential information or that of its customers;
- uncertainty as to the accuracy of key assumptions Hitachi uses to evaluate its significant employee benefit-related costs; and
- uncertainty as to Hitachi’s ability to attract and retain skilled personnel.

The factors listed above are not all-inclusive and are in addition to other factors contained in other materials published by Hitachi.

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Inspire the Next